Using PBMs to Manage Prescription Drug Costs and Improve the Quality of Health Care

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ssues:

- Who are we and what value do we add?
- What would be the cost of drugs to consumers and health plans without PBMs?
- "Why won't PBMs disclose the rebates they negotiate?"
- Would price controls work better than the private market?
- Where do we go from here?



Today's PBM Industry

- 200 million individuals are covered today through PBMs; 70% of all prescriptions
- PBM point-of-sale ("POS") systems adjudicate more than 2 billion transactions annually
- Existing pharmacy networks with 50,000+ pharmacies; more than 90% of all pharmacies
- Integrate prescription drug claims into medical records of health plans



Medco Health Today

- 539 million prescriptions (457M retail, 82M Home Delivery)
- Largest Home Delivery Provider nationally and within the FEHBP
- Covered Lives: 64 million
- Largest Internet pharmacy: through Medcohealth.com we dispense 11 million prescriptions (240k per week)
- ERISA employers; BCBS and commercial insurers; MCOs; and government employee programs
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Core Capabilities of PBMs

- Develop and administer formularies
- Negotiate drug manufacturer rebate contracts
- Maximize the use of generics
- Manage drug utilization
- Profile physician prescribing practices to encourage "best practices"
- Negotiate pharmacy network contracts
- Health management programs



Formularies

- P&T Committees, composed of physicians and pharmacists, assure scientific and clinical validity
- Formularies vary by degree of restriction
 - -- open formularies
 - -- multi-tier copayment formularies
 - -- closed formularies
- Generic drugs are preferred on formularies



GAO Study of PBMs in the FEHBP

- Studied FEP, GEHA and Pacificare
- GAO had access to pricing and rebates
- GAO concluded that the PBMs studied:
 - Saved 18% on brands; 47% on generics
 - Generated 3-9% in rebates savings
 - Reduced overall premiums by over 1%
 - Provided patient safety programs that reduced dangerous drug interactions where patients use multiple doctors and pharmacies



The Truth About Rebates

- The three largest PBMs have operating income of 1-2% pre-tax
- Retail pharmacy operating income ranges from 2-4%
- Health plans use competitive bidding to select PBMs and specifically negotiate the amount and structure of rebate pass-through, retention and disclosure
- Clients often require bidders to submit bids with:
 - -- no administrative fees for claims processing
 - -- no fees for pharmacy network management
 - -- no fees for data analysis and client support
 - -- no mail service dispensing fees



If Rebates Work, why are costs rising?

- Medicaid, which uses price controls, is experiencing the highest drug trend of any sector
- Most significant drivers of drug trend are: utilization, price increases and new drug introductions
- Medicaid is turning to strategies that would not be tolerated in the FEHBP or by most employers
 - -- limiting the number of prescriptions per month
 - -- closing classes of drugs
 - -- using therapeutic MACs or "reference pricing"
- Private sector has not been willing to impose the draconian measures Medicaid is being forced to impose because of state budget deficits



Rebates in a Medicare Drug Benefit

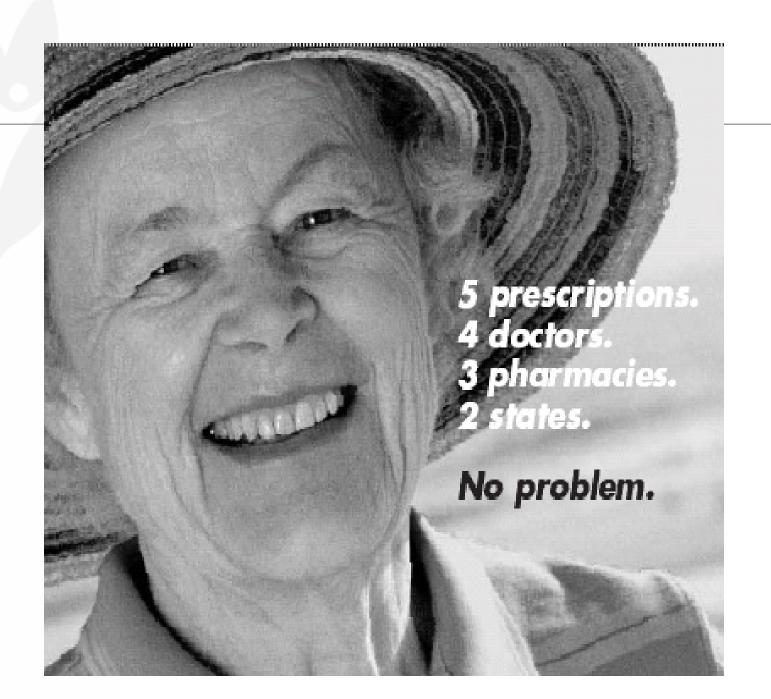
- If not price controls then how? Negotiated rebates are the principal market based alternative
- DOD, VA, Medicaid, CMS discount card, and most pending Medicare proposals use rebates to make the drug benefit affordable
- All CBO scoring assumes rebates will be obtained and that as formularies and interchanges are restricted, savings decrease and 10 year score increases (CBO 10/2002)
- Benefit design, formularies, cost-sharing formulae, and interchange programs drive level of rebates



Rebate Transparency

- Government has three roles
 - -- provides entitlements
 - -- offers benefit programs to employees
 - -- regulates private sector transactions
- Government can require transparency as part of bid specification
- Private sector clients can require transparency as condition of doing business
- Must be procedures in place to assure confidentiality of proprietary information and not harm competition





Discount Cards

- Brandeis University study documented average savings of 26%, or \$7 per generic medication; and 14% or \$11 per brand-name prescription
- First study to use actual pharmacy claims
- Important implications for drug benefit legislation
 - Lowers costs for scripts during any gap in coverage:
 - before a stop loss benefit is reached
 - before deductibles are satisfied

